

## Environmental and Social Lending Risk Process

### Environmental and Social Risk Process for Non-Retail Lending Business Lines

TD's Environmental and Social Risk Policy for Non-Retail Lending Business Lines ("Policy") defines requirements for identifying and managing environmental and social ("E&S") risk within the Bank's non-retail lending portfolios and provides a framework to help ensure that the Bank's lending practices incorporate E&S risk management assessment procedures and meet industry good practices. This Policy and associated risk assessment procedures are updated based on input from various sources, including internal and external industry experts and consultancy and research firms as well as generally accepted international agreements and standards in providing industry-standard risk guidance. TD procedures for assessing the E&S risk in non-retail lending transactions include:

- As part of the Non-Retail Lending process, the Lending Team performs due diligence on a given applicable borrower and transaction to identify and evaluate the risks associated with the lending activity, including applicable E&S risks. Due diligence related to assessing environment and social risks may include but is not limited to client questionnaires, environmental site assessments, site visits and industry research. Applicable borrowers in certain industries with higher environmental risks undergo enhanced due diligence.
- If a transaction meets certain established internal criteria referenced in the Policy, the Lending Team will complete an E&S Risk Management Assessment to evaluate whether further escalation is required. This process is designed to provide a method of assessing E&S risks and results in the assignment of an E&S risk rating score (ESRR) to the transaction.
- If a transaction's ESRR is above an established threshold, the Lending Team will escalate the request to TD's Environmental and Social Risk Management (ESRM) Team for additional review. The ESRM Team will assess the environmental and/or social risks identified by the business and verify that an appropriate E&S Risk Management Assessment has been completed. In cases where a transaction has heightened environmental or social risk, the ESRM Team may recommend escalation of the transaction request to the business segment and/or Enterprise Reputational Risk Committee for further review and deliberation.
- If Equator Principles<sup>1</sup> apply to a given transaction, additional due diligence by the Lending Team beyond the above would also be required.
- If a transaction is determined to fall within the Prohibited Transactions below or is otherwise determined to present unacceptable environmental and/or social risks, the transaction will not go forward.

1. For more information, visit page 46 of [TD's 2021 ESG Report](#).



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### Prohibited Transactions

TD does not lend to companies when due diligence reveals that the company actively engages in the below transactions:

- Mining of conflict minerals
- Activities within World Heritage Sites unless they are exempted or allowed within the conditions of the World Heritage Site designation and/or sponsored/supported by the relevant national responsible authority
- Activities that would result in the degradation of protected critical natural habitats as designated according to World Conservation Union (IUCN) classification and International Finance Corporation Standards
- Purchase of timber from illegal logging operations
- Mountaintop-removal coal mining
- Trade in or manufacturing of material for nuclear, chemical or biological weapons or for land mines or cluster bombs
- Production or trade of wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)
- New project-specific financial services, including advisory services, for activities that are directly related to the exploration, development, or production of oil and gas within the Arctic Circle, including the Arctic National Wildlife Refuge (ANWR)
- Production or trade in any product or activity deemed illegal under host-country laws or regulations, including those ratified under international conventions and agreements

### Indigenous Peoples

TD has a longstanding commitment to support the rights of Indigenous Peoples within North America. We are supporters of the principles of free, prior and informed consent (FPIC). Our commitments are:

- To identify transactions where lands, resources and/or Indigenous Peoples' way of life may be impacted in line with the Equator Principles.
- To incorporate assessments of our clients' policies, practices and performance relating to FPIC when relevant as part of TD's Environmental and Social Lending Risk Policy for Non-Retail Lending
- To support development and dissemination of good practices for the practical implementation of FPIC. We do this by working with diverse multi-stakeholder groups and by providing objective information to support solutions-based dialogue and informed public policy decisions

## Application of Enhanced Due Diligence Processes

### Environmental Due Diligence Examples

#### TD Bank

In 2021, TD provided a land acquisition loan for the development of two high-rise condominium towers in Eastern Canada. A Phase I Environmental Site Assessment (ESA) (Phase I is a preliminary site investigation to determine if there is a potential for contamination to be present on a site) was completed for the subject site in accordance with TD's due diligence procedures for non-retail credit transactions to assess the associated environmental risks. The Phase I ESA identified a risk of contamination of the site from a former dry cleaner on the adjacent property with detectable concentrations of tetrachloroethylene in the groundwater. While the concentrations on the adjacent property were below the applicable standard issued by the Ministry of the Environment (MOE standards), the nature and migration behaviour of the contaminants was unpredictable, and a Phase II ESA (Phase II is to drill and sample soil, soil-vapour, and groundwater to test for pollution) was recommended by the environmental consultants to assess the potential concerns over soil contamination at the site. A Phase II ESA was completed to assess onsite soil and groundwater quality for the presence/absence of contaminations based on the risk identified in the Phase I ESA. Additionally, as a condition of the loan, the Bank requested an Environmental Indemnity Agreement to be obtained by the Borrower, to provide further reassurance that all remediation work would be completed. Soil and groundwater samples were collected and analyzed for volatile organic compounds and materials. All results met the applicable MOE standards, no further work was recommended, and the deal was closed.

#### TD Bank, America's Most Convenient Bank®

TD Bank, America's Most Convenient Bank® (the Bank) in 2022 was approached by a borrower for financing the purchase of a commercial property in the Northeast United States. This transaction was processed with the United States Small Business Administration under the 7(a)-loan program. A Phase I ESA was completed and identified an adjacent property with a release requiring regulatory oversight as an environmental threat to the commercial property which also served as the proposed collateral. A Phase II ESA was recommended. However, upon review by the Bank's Environmental Risk Management Division (ERMD), the Environmental Risk Officer recommended a regulatory file review to potentially eliminate the need for a Phase II ESA. The regulatory file review was completed, and the review confirmed that contamination from the adjacent property was localized off-site and was not migrating onto and impacting the collateral property. As such, the need for a Phase II ESA was eliminated and the Bank's ERMD recommended no further action.

#### TD Bank

In Q4 2021, TD provided construction financing for the development of an industrial building located in Quebec. Phase I & II ESAs were completed which revealed the presence of soils contaminated with Volatile Organic Compounds (VOCs) and/or Polycyclic Aromatic Hydrocarbons that did not comply with the use of the site. Following the finalization of the Rehabilitation Plan, work was carried out by the Borrower so that the contaminated soils identified were removed and the residual soils complied with the standards in effect for the property's planned industrial use. An independent third party was retained by the Borrower to carry out the supervision of the rehabilitation works, the sampling of the walls and bottoms of the pits created, and the analysis of the results.

A Phase IV ESA (the decontamination process) was carried out by third parties after the rehabilitation work was completed, confirming that no additional environmental intervention was necessary, apart from monitoring the environmental quality of the ground water two times per year (fall and spring) for three years and continuing an annual vapour monitoring program to verify the presence of VOCs and to monitor the evolution of vapours in the sewer.

TD conditioned the Credit Application on the following reporting covenants:

- Over a period of three years, the Borrower is to provide the Bank with semi-annual proof (in the fall and spring) that water sampling has been completed.
- The Borrower is to provide the Bank with annual proof of vapour testing of the sewers for VOCs.

In addition to the reporting covenants, an Environmental Indemnity Agreement, executed by the Borrower and Guarantors was obtained as part of the security package. Construction of the project has progressed as anticipated and is now nearing completion.

